Red Owl Stores, Inc. / ANNUAL REPORT / Period ended February 25, 1961

ABOUT THE COVER— *Red Owl's 170 trucks and trailers, like the combination on the cover, travel to and from our company-owned stores and wholesale accounts. The crisp, bold company's symbol emblazoned on sides and tailgate has become instantly recognizable to countless thousands of midwestern families. And while we're mentioning the Red Owl truck fleet, we'd like to congratulate our many drivers on their excellent safety record—one that covers over 6 million miles of driving every year!*

CONTENTS

TO OUR SHAREHOLDERS & EMPLOYEES:

During the past year, Red Owl directed its efforts toward establishing a position in its two new major market areas—Chicago and Denver.

The activities in these cities, coupled with the construction of ten new supermarkets, resulted in the most ambitious program in the company's history.

The costs of securing a foothold in Chicago and Denver were somewhat higher than had been anticipated. However, continued improvement in well established markets offset, in part, the impact of these sizable charges against earnings.

Sales for the year ended February 25, 1961 amounted to $274,592,419, an increase of 21.2% over the preceding year. This gain was due in a large measure to the first full year's operation of the Denver branch and the volume added by other new units.

Per share earnings, including a special credit of 43 cents, were $3.73 compared to $3.53 a year earlier. The number of shares outstanding increased by 16,750.

The quarterly dividend rate was continued throughout the year at 40 cents per share. A total of $1,077,548 was paid shareholders, or approximately 42% of earnings.

Although new store construction continued at about the same pace as in the previous year, emphasis was shifted to the remodeling of all of the Denver area stores and their conversion into typical Red Owl units. A major addition was completed at the Hopkins plant which will increase efficiency in addition to providing the greater capacity required for our growing business.

In the year ahead, more stores are planned for the metropolitan centers served by Red Owl, particularly in Chicago. It should be noted that as additional stores are opened in new markets, certain important costs decline on a per store basis thereby shortening the period of time required for a new unit to reach a profitable level of operations.

Although growth opportunity in the supermarket field continues to be the primary interest of Red Owl, management has considered the advisability of diversifying the company's activities. Red Owl personnel is consumer-oriented, having served the public successfully for nearly forty years, and our diversification interest lies in this area. Shortly after the close of the fiscal year an agreement was signed to acquire a Twin City radio station through an exchange of stock. The transaction is subject to Federal Communications Commission approval.

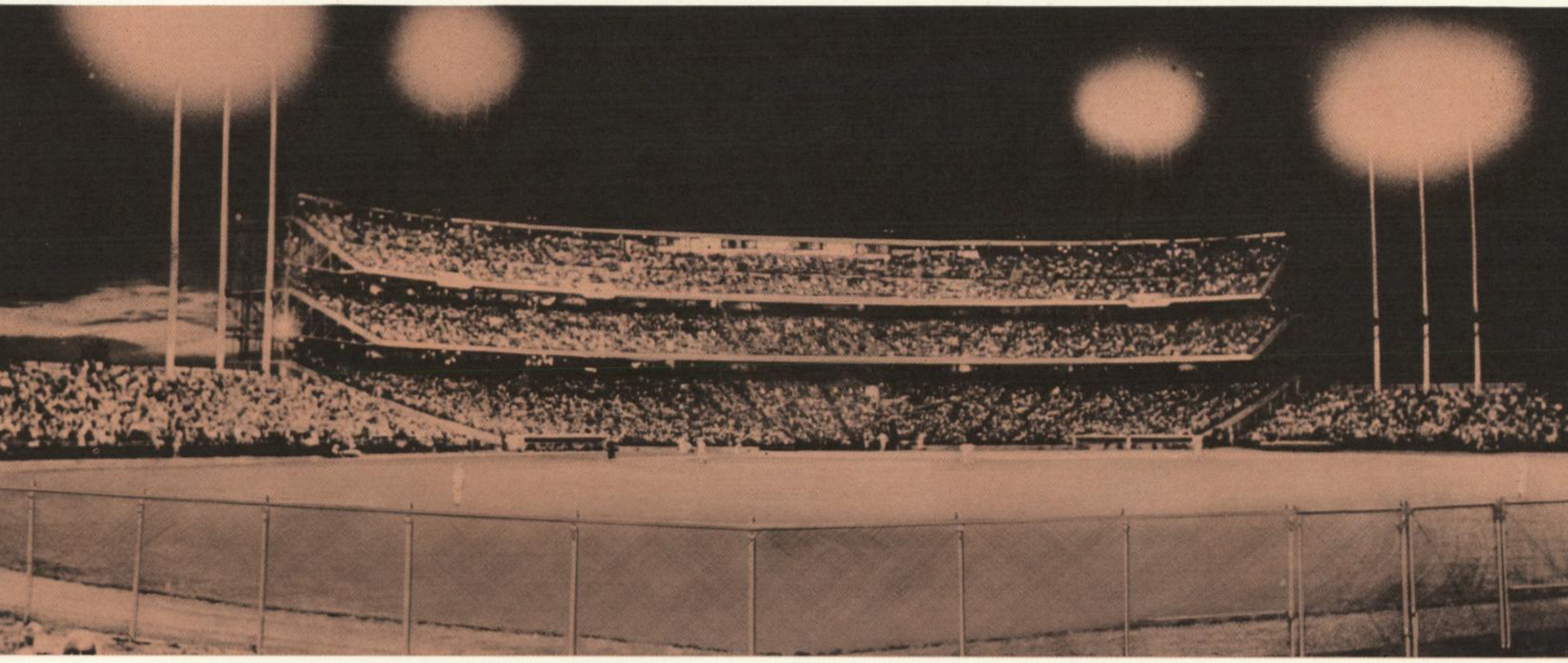
Many of the extraordinary costs of entering the Chicago and Denver markets are now behind us. While results for the first half of the year may not equal the high level of the corresponding period last year, we believe that earnings will increase for the year as a whole.

The support of our employees and shareholders makes possible our continuing progress, and we take this opportunity to express our sincere appreciation to you.

CHAIRMAN OF THE BOARD

PRESIDENT

This is Metropolitan Stadium on the night of August 15, 1960. A record crowd of 19,000 Twin City baseball fans—with tickets they had purchased at Red Owl Stores for 10¢ each—watched the Red Owl Family Funtennial. The whole promotion was well received and resulted in many new customers.



HIGHLIGHTS

	FISCAL YEAR ENDED FEB. 25, 1961	FEB. 27, 1960	PERCENTAGE INCREASE
Retail sales	$222,647,136	187,956,781	18.5%
Wholesale sales—Agency and others	51,945,283	38,632,235	34.5
Total	274,592,419	226,589,016	21.2
Earnings			
Net earnings for year (including special credit of $294,000 in 1961)	2,541,605	2,349,689	8.2
Reinvested in business	1,464,057	1,301,725	12.5
Earned per share common (including special credit of 43 cents in 1961)	3.73	3.53	5.7
Number of common shares outstanding	681,866	665,116	2.5
Dividends per share	1.60	1.60	—
Net working capital*	13,467,806	12,720,178	5.9
Ratio of current assets to current liabilities*	2.12 to 1	1.98 to 1	
Book value per share common	29.65	27.43	

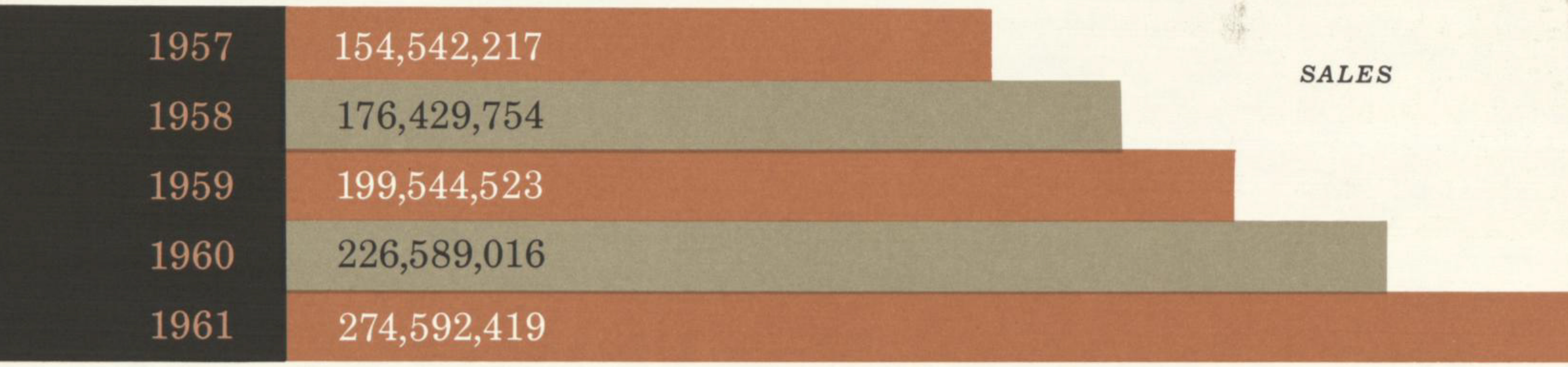
**Excluding wholly-owned realty subsidiaries*

REVIEW

OF THE YEAR'S OPERATIONS

Sales up 21.2%

Operation of the Denver branch for a full year, together with new store expansion, resulted in a sharp increase in sales. Sales for the year ended February 25, 1961 amounted to $274,592,419, compared with $226,589,016 in the preceding year. Retail sales were up 18.5% and the Agency Division's volume rose 8.6%. Other wholesale business accounted for the remainder of the over-all increase which amounted to 21.2%.



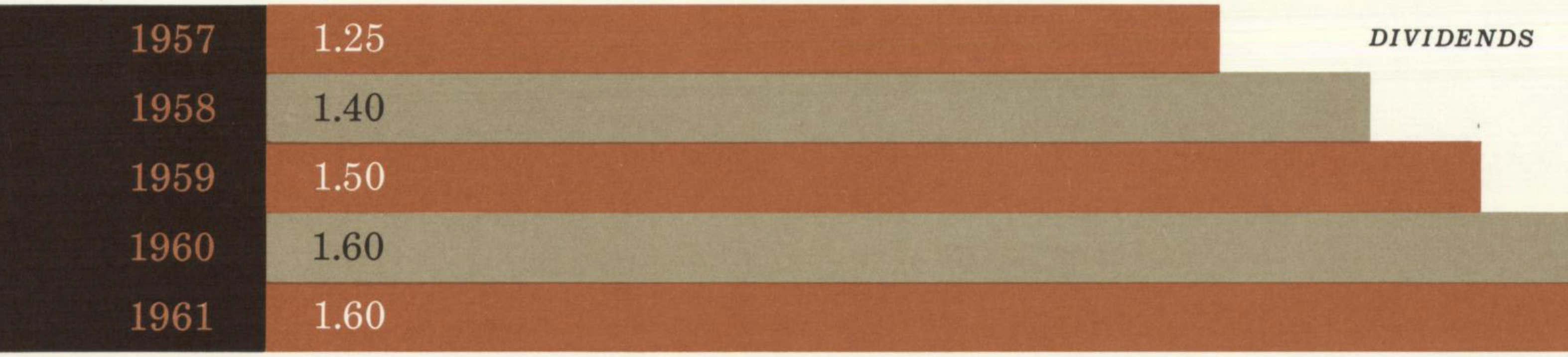
Average sales per retail location amounted to $1,341,000 compared with $1,260,000 the previous year. The newer supermarkets, however, are considerably in excess of the company's average.

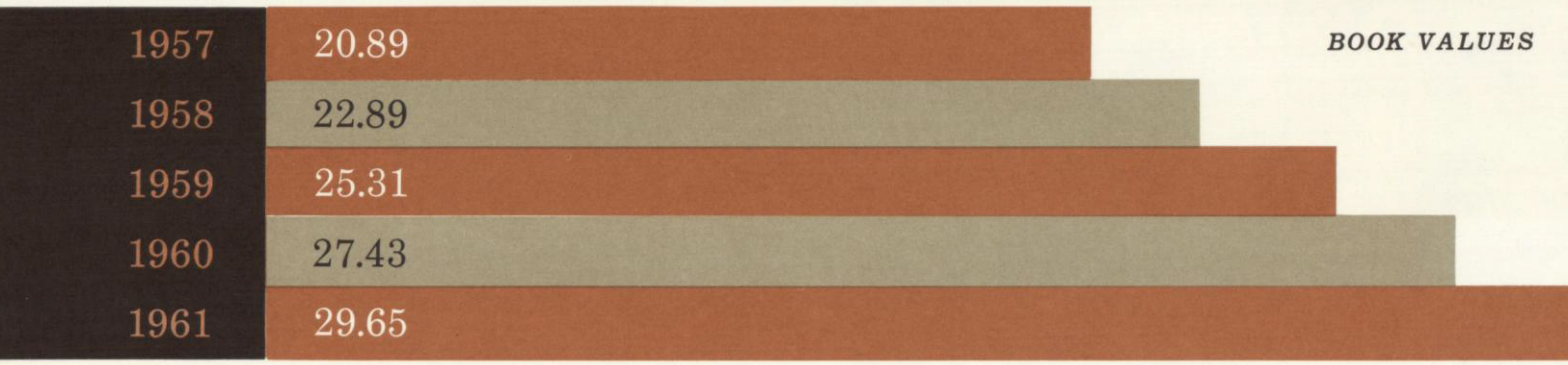
Consolidated net earnings after taxes were $2,541,605, including a special credit of $294,000. This credit resulted from adjustments by income tax authorities of certain new store and remodeling expense charged against earnings during the last five years. Earnings per share were $3.73, including the special credit of 43 cents, compared with $3.53 a year earlier, based on the shares outstanding at the close of each year.

Number of shares increased

Shares outstanding increased from 665,116 to 681,866. Of the increase, 11,490 were due to conversion of debentures and 5260 resulted from exercise of stock options.

Earnings of stores in traditional market areas were up substantially. However, costs of entering Chicago and Denver had a large impact on total results. Progress has been made in realizing the potential of the Denver operation and it is anticipated these stores will continue to show improvement.





Chicago appears promising

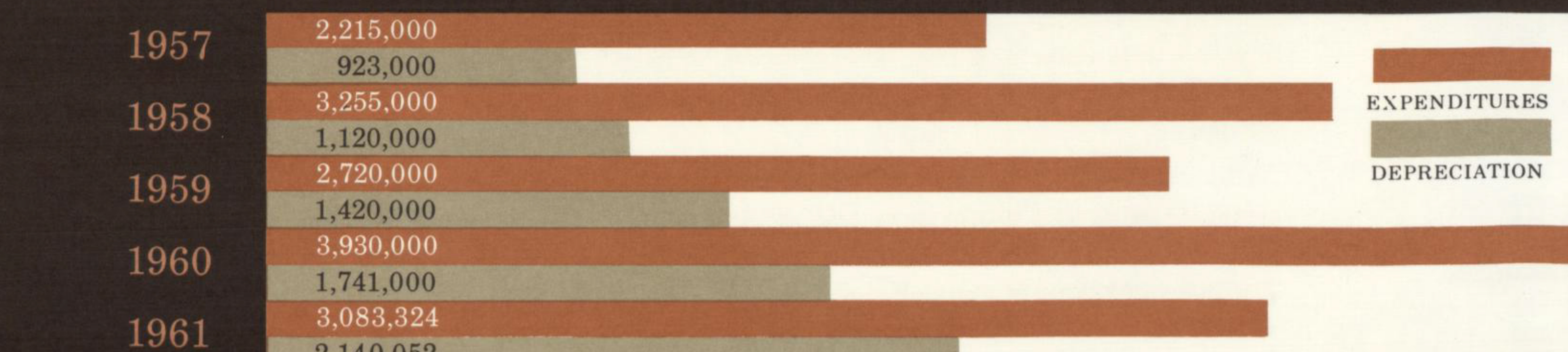
In Chicago, a base has been established upon which the company can continue to build. Opportunities in this area appear promising and stepped-up expansion is anticipated during the year ahead.

Four quarterly dividends of 40 cents per share were paid, maintaining the same annual rate of $1.60 as in the previous year. A cash dividend has been paid every year since 1933.

Net working capital at the close of the year was $13,467,806. The ratio of current assets to current liabilities was 2.12 to 1. Despite the added volume the inventory increase was held to $247,109, reflecting faster turnover of merchandise.

The continuing expansion and remodeling programs required $3,083,324 for fixtures, equipment and leasehold improvements. The expenditures and depreciation applicable to these items are presented in chart form for a five-year period.

CAPITAL EXPENDITURES AND DEPRECIATION



New financing

During the year, negotiations were concluded with an institutional lender for a 14½ year 5¾% loan in the amount of $4,000,000. Receipt of $1,000,000 of these funds was deferred until March, 1961, when it will be required to finance further expansion. One-half of the loan was used to refinance a long-term note incurred in part payment of the Marr purchase in Denver, while the balance was secured for purchases of equipment, fixtures, and for working capital.

Wholly-owned realty subsidiaries issued $950,000 first mortgage installment notes to finance the ownership of store properties leased to the parent company. This was part of the $2,000,000 stand-by agreement arranged for this purpose the previous year.

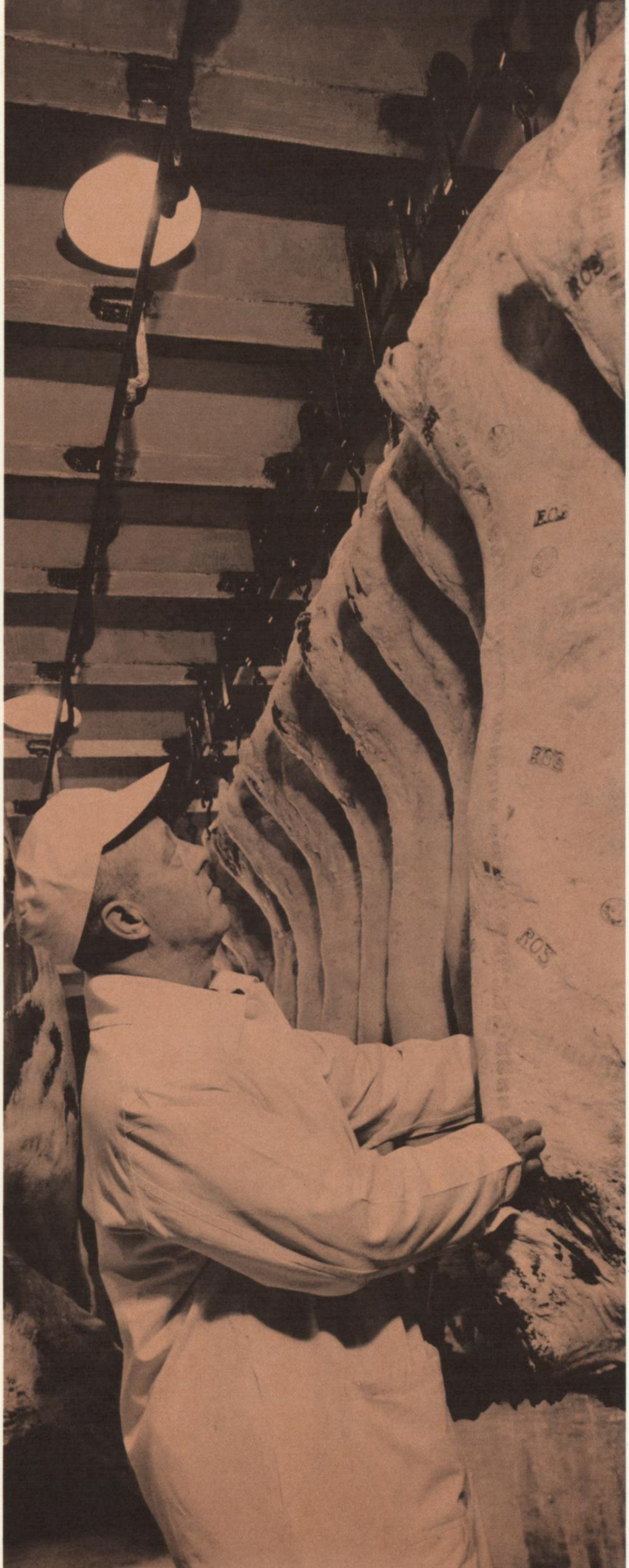
Supermarket expansion continued at about the preceding year's level with the opening of three Milwaukee stores, two in the Twin Cities, and one each in Denver, Chicago and Aberdeen, South Dakota. Existing stores were replaced in Sterling, Colorado and St. Peter, Minnesota. Stores involved in the Denver area acquisition were remodeled during the year and converted to Red Owl operations and identification. Although the magnitude of this program temporarily delayed the Chicago expansion, it is expected that several stores will be opened during the coming year, two of which are now under construction.

The Hopkins, Minnesota Plant contains a full-size bakery that produces a complete line of breads, rolls, cakes, pies, and specialty items.

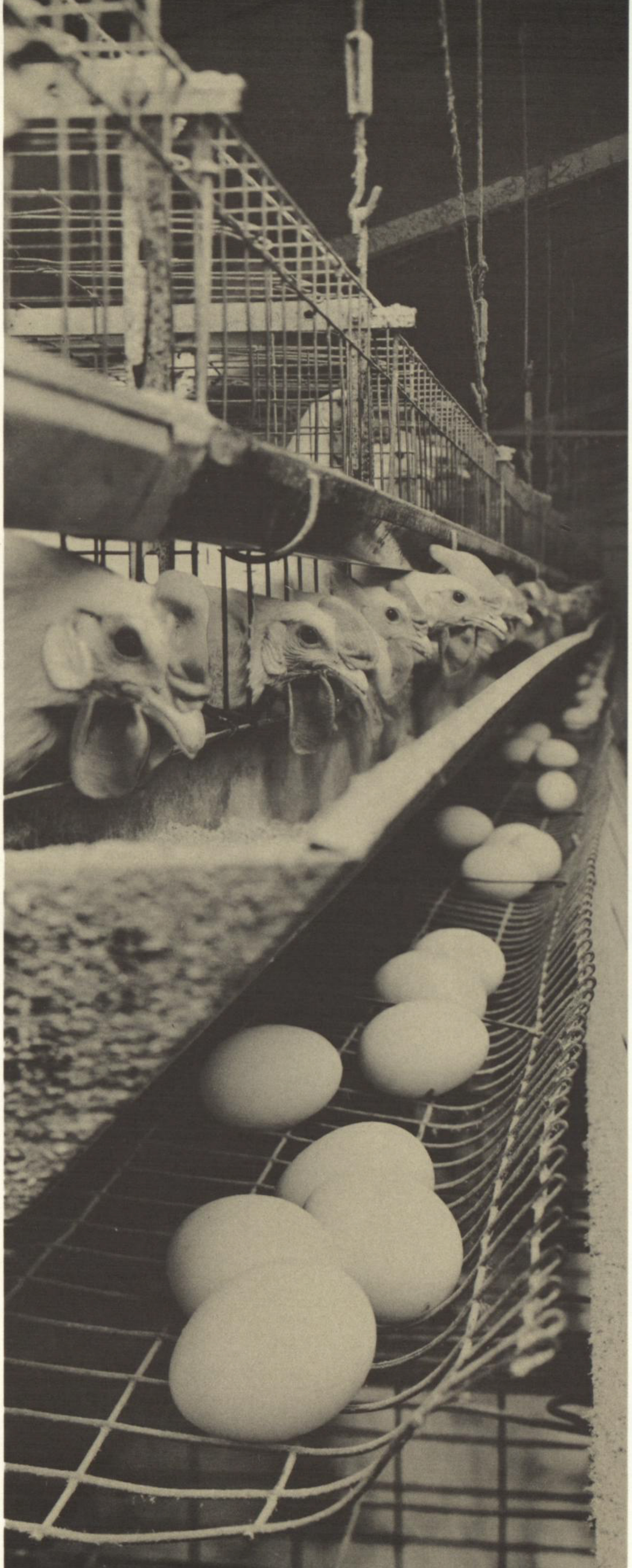
Super market expansion continues

Of the 166 retail outlets operated by the company almost two-thirds were opened, enlarged or relocated during the past five years.

A major addition, made necessary by increasing volume, was recently completed at the Hopkins grocery warehouse. These new facilities will enable the warehouse to operate more efficiently.



A Red Owl inspector-buyer makes his selection in a South St. Paul packing house. His training and experience make Red Owl's "Insured Meat" plan possible—a plan that has met with tremendous success among quality-minded customer families.



This interesting photograph shows one of many chicken farms that regularly supply Red Owl with fresh eggs. They are also graded, refrigerated, cartoned, and readied for delivery. This particular farm near Minneapolis provides some 3,000 eggs daily!

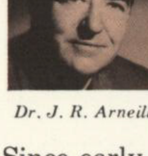
The Hopkins plant includes a kitchen for producing delicatessen products, a roasting plant for private label coffee, a luncheon meat and bulk cheese packaging department, and a large, modern bakery.

Commercial style products are baked in the Hopkins and Denver bakeries. Home style goods are produced in Hopkins, Minnesota, Fargo, North Dakota, and Green Bay, Wisconsin. "In-the-store" bakeries are located in Sioux City, Iowa, Madison, Wisconsin, Denver, Colorado, and Duluth, Minnesota. In several other key points top-quality suppliers of baked goods furnish stores in the area under an agreement with Red Owl.

Attractive, modern bakery and produce departments in a new Red Owl Agency store in Hutchinson, Minnesota.

Agency business expands

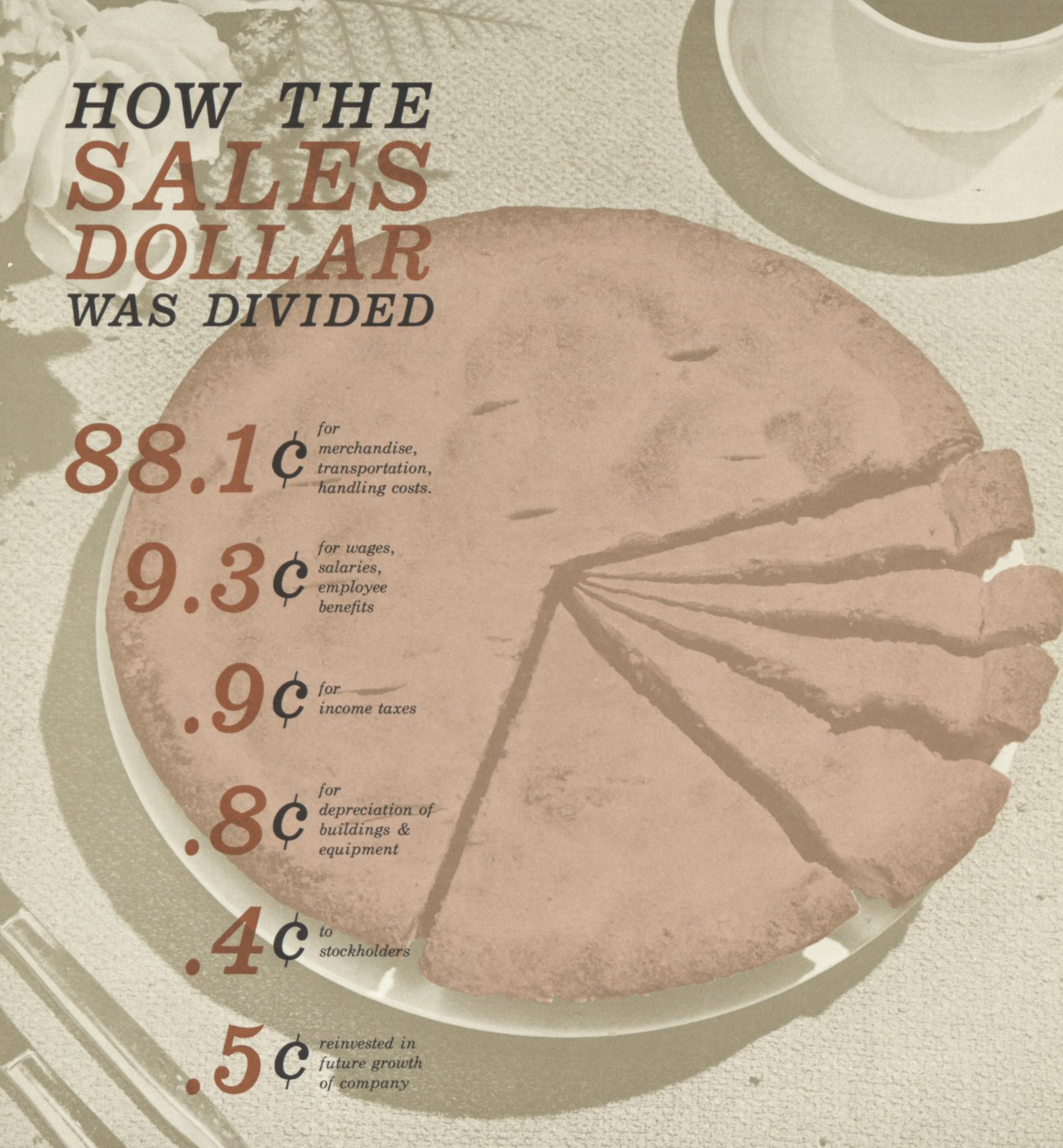
During the past few years much emphasis has been placed on the promotion of the company's Agency business. Red Owl finances fixtures for qualified operators, and, in addition, provides short-term credit for merchandise purchases. Shown here is a recently opened Agency location of the type the Division is now developing.



Dr. J. R. Arneill

James R. Arneill, M.D., a prominent physician and business leader in Denver, Colorado, was elected to the Board of Directors. He filled the unexpired term of Richard L. Kozelka, Dean of the School of Business Administration, University of Minnesota, who resigned as of June 30, having served on the board since 1949.

Since early in 1960, the company has been operating a food store in a discount center as an experiment. Though the results to date appear interesting, and another unit is contemplated in the near future, it is premature to form any conclusions as to the extent of the company's long range plans in this field.



HOW THE SALES DOLLAR WAS DIVIDED

88.1¢ *for merchandise, transportation, handling costs.*

9.3¢ *for wages, salaries, employee benefits*

.9¢ *for income taxes*

.8¢ *for depreciation of buildings & equipment*

.4¢ *to stockholders*

.5¢ *reinvested in future growth of company*

FACILITIES	IOWA	MICH.	MINN.	MONT.	NO. DAK.	SO. DAK.	WISC.	WYO.	ILL.	COLO.	TOTAL
Corporate Stores	3	8	57	2	24	18	33	1	4	16	166
Agency and Wholesale Accounts	5	20	137		45	32	80			104	423
Principal Warehouses			1		1		1			1	4

LOOKING TO THE FUTURE

Executive training and development continues as one of the principal objectives of management. Opportunities within Red Owl are greater than ever before in the company's history, thereby affording challenges for individual growth and achievement. ■ Accompanying the development of people is the company's search for new ideas and "extras" to make shopping at Red Owl a pleasant experience for its customers. Pictured here is a Chicago area supermarket with a new style exterior, scheduled to open soon. ■ Increased costs, as well as current

economic and competitive conditions, require even greater emphasis on productivity and efficiency. It is expected that an expanded industrial engineering department, working hand in hand with the supervisory staff, will bring about improvements in the area of cost control and reduction. ■ The advisability of converting to electronic accounting equipment has been considered by the company for some time. Commitments were made this past year for the installation of such equipment, and key persons have been assigned to complete their training before its acquisition date in the coming year. ■ It is believed that new financing will not be required in the year ahead although new store development will continue at an even more accelerated rate than that of the past year. Present plans call for special emphasis on new locations in metropolitan Chicago.

RED OWL STORES, INC.
AND CONSOLIDATED SUBSIDIARIES

Consolidated Statement of Operations and Retained Earnings

Year ended February 25, 1961 (with comparative figures for the previous year)

	YEAR ENDED	
	FEB. 25, 1961	FEB. 27, 1960
Net sales:		
Retail	$222,647,136	187,956,781
Wholesale to agencies and others	51,945,283	38,632,235
	274,592,419	226,589,016
Costs and operating expenses (note 2):		
Cost of goods sold, including warehousing and transportation expenses	230,012,470	189,537,955
Selling, general and administrative and other operating expenses	39,535,956	32,101,649
	269,548,426	221,639,604
Operating earnings	5,043,993	4,949,412
Other deductions (income)—net:		
Interest (on long-term debt	438,415	336,861
(other	24,215	5,120
Miscellaneous deductions	31,968	43,834
Gain on disposal of property and equipment—net	(2,118)	(71,393)
Miscellaneous income	(56,370)	(214,308)
	436,110	100,114
Earnings before taxes on income	4,607,883	4,849,298
Federal and State taxes on income, estimated	2,473,300	2,571,000
Net earnings before undistributed earnings of wholly-owned realty subsidiaries	2,134,583	2,278,298
Net earnings of wholly-owned realty subsidiaries	113,022	71,391
Net earnings before special credit	2,247,605	2,349,689
Special credit arising from adjustments of certain new store and remodeling expenses of previous years in accordance with Revenue Agent's examination, less related taxes on income—$346,978	294,000	—
Net earnings and special credit	2,541,605	2,349,689
Deduct dividends on Red Owl Stores, Inc. common stock—$1.60 per share in each year	1,077,548	1,047,964
	1,464,057	1,301,725
Retained earnings at beginning of year—unappropriated	10,814,876	9,513,151
Retained earnings at end of year:		
Unappropriated (notes 1 and 6)	12,278,933	10,814,876
Appropriated for possible future inventory losses	285,000	285,000
Total at end of year	$ 12,563,933	11,099,876

See accompanying notes to financial statements.

RED OWL STORES, INC.
AND CONSOLIDATED SUBSIDIARIES

Consolidated Balance Sheet

February 25, 1961 (with comparative figures for the previous year)

Assets	FEB. 25, 1961	FEB. 27, 1960
Current assets:		
Cash	$ 5,475,052	5,616,941
Accounts and notes receivable, less allowance for doubtful receivables $79,885	2,037,836	2,043,555
Merchandise inventories, at lower of cost or market	17,294,879	17,047,770
Prepaid expenses	700,117	808,306
Properties subsequently sold or in process of sale (with agreements to lease back)	36,634	194,696
Total current assets	25,544,518	25,711,268
Investments and other assets:		
Investments in and advances to wholly-owned realty subsidiaries not consolidated, at net equity value (note 1)	1,364,787	1,553,912
Miscellaneous	793,706	536,164
	2,158,493	2,090,076
Property, plant and equipment, at cost less depreciation and amortization (note 2)	13,124,008	12,333,845
Deferred charges	1,219,356	413,933
	$42,046,375	40,549,122

Liabilities	FEB. 25, 1961	FEB. 27, 1960
Current liabilities:		
Current instalments of long-term debt	$ 390,000	240,000
Drafts and accounts payable	7,471,472	8,508,534
Accrued expenses	2,911,066	2,819,166
Federal and State taxes on income, estimated	1,304,174	1,423,390
Total current liabilities	12,076,712	12,991,090
Provision for deferred income taxes (note 2)	1,034,388	817,285
Long-term debt, less current instalments included above (note 3)	8,721,000	8,494,000
Stockholders' equity:		
Preferred stock—par value $100 per share. Authorized 50,000 shares; none outstanding	—	—
Common stock—no par value, stated value $3 per share. Authorized 2,000,000 shares; issued and outstanding 681,866 shares (665,116 in 1960) (note 4)	2,045,598	1,995,348
Additional amounts paid in by stockholders (note 5)	5,604,744	5,151,523
Retained earnings (notes 1 and 6), per accompanying statement	12,563,933	11,099,876
	20,214,275	18,246,747
Commitments (note 7)		
	$42,046,375	40,549,122

See accompanying notes to financial statements.

WHOLLY-OWNED REALTY SUBSIDIARIES OF RED OWL STORES, INC.

Combined Balance Sheet

February 25, 1961 (with comparative figures for the previous year)

Assets	FEB. 25, 1961	FEB. 27, 1960
Cash	$ 63,254	12,959
Accounts receivable	20,321	12,226
Property and plant, at cost less depreciation (note 2)	6,386,129	5,608,963
Deferred debt and organization expenses	55,466	40,858
	$6,525,170	5,675,006
Liabilities		
Current instalments of long-term debt	$ 269,299	228,200
Accounts payable and accrued expenses	37,171	72,544
Federal and State taxes on income, estimated	72,844	56,991
Due to Red Owl Stores, Inc.	904,806	1,210,453
Provision for deferred income taxes (note 2)	78,829	51,634
Long-term debt, less current instalments above (note 3)	4,702,240	3,711,725
Investment of Red Owl Stores, Inc.:		
Capital stock	24,500	21,000
Additional paid-in capital	54,000	54,000
Retained earnings, per statement below	381,481	268,459
	459,981	343,459
	$6,525,170	5,675,006

Combined Statement of Earnings and Retained Earnings

Year ended February 25, 1961 (with comparative figures for the previous year)

	YEAR ENDED	
	FEB. 25, 1961	FEB. 27, 1960
Revenue and other income:		
Rents received from Red Owl Stores, Inc.	$ 595,833	477,468
Gain on disposal of property	13,707	—
Miscellaneous	143	215
	609,683	477,683
Expenses and other deductions:		
Depreciation	161,588	132,904
Interest	222,273	183,515
Amortization of debt expense	7,168	7,459
Miscellaneous	11,532	7,914
	402,561	331,792
Earnings before taxes on income	207,122	145,891
Federal and State taxes on income, estimated	94,100	74,500
Net earnings	113,022	71,391
Retained earnings at beginning of year	268,459	197,068
Retained earnings at end of year	$ 381,481	268,459

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS *Year ended February 25, 1961*

NOTE 1.

The accompanying consolidated financial statements include the accounts of Red Owl Stores, Inc. and all active subsidiaries except five wholly-owned realty subsidiaries, two organized during the year, for which combined financial statements are included in this report.

Investments in and advances to the unconsolidated wholly-owned realty subsidiaries are stated in the consolidated balance sheet at the Company's equity in the net assets of such subsidiaries and consolidated retained earnings include their net undistributed earnings as shown in their combined financial statements.

NOTE 2.

Property, plant and equipment, at cost less depreciation and amortization, is summarized as follows:

	RED OWL STORES, INC. AND CONSOLIDATED SUBSIDIARIES	WHOLLY-OWNED REALTY SUBSIDIARIES
Land	$ 159,732	981,451
Buildings	401,151	6,034,131
Furniture, fixtures and equipment	15,800,662	—
Automotive equipment	2,855,524	—
	19,217,069	7,015,582
Less depreciation	8,326,451	633,413
	10,890,618	6,382,169
Leasehold improvements, at cost less amortization	1,946,081	—
Store construction in progress and store properties held for sale	287,309	3,960
	$13,124,008	6,386,129

Depreciation and amortization charges included in costs and expenses of Red Owl Stores, Inc. and consolidated subsidiaries amount to $2,166,795 in 1961 and $1,741,077 in 1960. Depreciation charges against earnings have been computed by the straight-line method. For income tax purposes, however depreciation on certain buildings and on fixtures and equipment acquired since January 1, 1954 has been computed by one of the accelerated methods permitted by the Internal Revenue Code. Provision has been made for deferred income tax liability applicable to the excess of depreciation being claimed for tax purposes over amounts charged against earnings.

NOTE 3.

Long-term debt, less instalments due within one year and cash held by trustee for current redemptions, is summarized as follows:

	RED OWL STORES, INC. AND CONSOLIDATED SUBSIDIARIES	WHOLLY-OWNED REALTY SUBSIDIARIES
3⅞% notes due July 1, 1966	$ 1,320,000	—
5½% notes due October 1, 1972	2,850,000	—
5¾% note due January 1, 1975	3,000,000	—
4¾% convertible subordinated debentures due February 1, 1978	1,551,000	—
6¼% mortgage note due October 15, 1975	—	308,547
5¾% mortgage notes due September 1, 1980	—	910,168
Sinking fund mortgage bonds:		
4% due June 1, 1969, Series A	—	485,000
4¼% due March 1, 1970, Series B	—	252,500
4½% due December 1, 1975 Series C	—	1,297,500
4¾% due December 1, 1977, Series D	—	545,025
4¾% due December 1, 1982, Series E	—	903,500
	$ 8,721,000	4,702,240

Aggregate annual maturities and required sinking fund redemptions of outstanding notes and bonds for the five years subsequent to March 3, 1962 are as follows: Red Owl Stores, Inc. and consolidated subsidiaries—$390,000 in fiscal year ending in 1963, $715,000 a year in fiscal years 1964 through 1966 and $595,000 in fiscal year 1967; wholly-owned realty subsidiaries—approximately $273,000 a year in fiscal years 1963 through 1967.

The 6¼% and 5¾% first mortgage notes and sinking fund mortgage bonds issued or assumed by wholly-owned realty subsidiaries are variously secured by the Company's principal warehouse property, certain store properties and the subsidiaries' interests in related long-term leases to the Company.

Terms of note and debenture agreements provide, among other things, for prepayment of indebtedness at varying premiums; until October 1, 1967, however, no prepayment of the 5½% and 5¾% notes may be made for the purpose of refunding indebtedness at lower interest rates. 4¾% subordinated debentures are convertible into shares of the Company's common stock at the price of $33⅓ per share, subject to adjustment under certain conditions.

The agreements relating to the 5¾% note of the Company and the 5¾% mortgage notes of realty subsidiaries provide for additional long-term borrowings in the respective amounts of $1,000,000 (advanced March 30, 1961) and $1,050,000. An agreement has also been made for an additional first mortgage loan to a realty subsidiary in an amount not to exceed $200,000.

NOTE 4. *Of the authorized common stock,* 46,530 shares are reserved for issuance upon conversion of the 4¾% subordinated debentures, 20,040 shares are reserved for issuance upon exercise of options granted under the Employees' Stock Option Plan and 4,715 shares are available for granting of future options.

Options are granted at not less than 95% of market value at dates granted and become exercisable over a period of five years commencing one year after dates granted. All options expire, subject to earlier expiration in the event of termination of employment, if not exercised within six years of dates granted. Changes during fiscal year 1961 in stock options held by certain executive employees are summarized as follows:

	OPTIONS GRANTED		OPTIONS EXERCISABLE	
	SHARES	AMOUNT	SHARES	AMOUNT
Balance at beginning of year	21,930	$742,385	8,140	$233,785
Granted or became exercisable	3,700	166,500	6,155	191,093
Exercised	(5,260)	(130,795)	(5,260)	(130,795)
Cancelled	(330)	(15,608)	(50)	(2,738)
Balance at end of year	20,040	$762,482	8,985	$291,345

Outstanding options have been granted at prices ranging from $24.00 to $54.75 per share ($45.00 in 1961) and, at dates of grant, shares under option had an aggregate market value of $794,090, an average of $39.63 per share.

NOTE 5. *Additional amounts paid in by stockholders* during the year amounting to $453,221 include the excess, $115,015, of amounts paid in over stated value of 5,260 shares of common stock issued upon exercise of employees' stock purchase options, and the excess, $348,530, of conversion price over stated value of 11,490 shares of common stock issued on conversion of 4¾% subordinated debentures, less applicable portion, $10,324, of unamortized expense of issuing the debentures.

NOTE 6. *Restrictions on payment of dividends* (except stock dividends) and purchase, redemption or retirement of capital stock are imposed by the terms of agreements relating to the 3⅞% notes, the 5½% notes, the 5¾% note and the 4⅞% debentures. Retained earnings at February 25, 1961 free from restrictions, based on working capital and retained earnings requirements under the most restrictive of the agreements, amount to approximately $2,100,000.

NOTE 7. *Long-term leases,* excluding leases to the Company by its wholly-owned realty subsidiaries, expiring more than three years after February 25, 1961, established minimum annual rentals on 147 stores and two warehouses. The approximate minimum annual rentals under such leases, excluding taxes, insurance and maintenance costs payable by the Company, amount to $2,676,000. Of this amount, leases with minimum annual rentals of $434,000 expire in fiscal years 1965 through 1969 and leases with minimum annual rentals of $2,242,000 have terms extending into fiscal years 1970 through 1981.

The Company leases its principal warehouse and home office from one of its wholly-owned realty subsidiaries for an initial period of thirty years at a present minimum annual rental of $395,000. Approximate minimum annual rentals on 9 store properties leased or to be leased from wholly-owned realty subsidiaries aggregate $244,000.

In addition, the Company has entered into agreements to lease store properties at new locations for initial periods of fifteen to twenty years at minimum annual rentals which will aggregate approximately $537,000.

Other commitments:

The Company guarantees payment of minimum rentals aggregating approximately $47,000 under the terms of long-term lease agreements entered into by certain agency store owners.

The Company's unfunded liability for past service benefits under the terms of a noncontributory salaried employees pension plan, adopted November 12, 1959, amounted to approximately $2,220,000 at February 25, 1961.

ACCOUNTANTS' REPORT

PEAT, MARWICK, MITCHELL & CO.
CERTIFIED PUBLIC ACCOUNTANTS
NORTHWESTERN BANK BUILDING
MINNEAPOLIS 2, MINN.

The Board of Directors
Red Owl Stores, Inc.:

We have examined the consolidated balance sheet of Red Owl Stores, Inc. and consolidated subsidiaries and the combined balance sheet of wholly-owned realty subsidiaries of Red Owl Stores, Inc. as of February 25, 1961, and the related statements of operations, earnings and retained earnings for the year then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheets and statements of operations, earnings and retained earnings present fairly the consolidated financial position of Red Owl Stores, Inc. and consolidated subsidiaries and the combined financial position of wholly-owned realty subsidiaries of Red Owl Stores, Inc. at February 25, 1961, and the results of the related operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.

Minneapolis, Minnesota
April 14, 1961

TEN YEAR RECORD OF GROWTH

FISCAL YEAR ENDED IN	1961	1960	1959	1958	1957	1956	1955	1954	1953	1952
(000's omitted)										
Sales Retail	$222,647	$187,957	$165,662	$144,891	$124,293	$ 95,074	$ 80,801	$ 77,064	$ 67,345	$ 65,341
Wholesale	51,945	38,632	33,882	31,539	30,249	28,679	31,378	29,723	27,744	24,493
Total Sales	274,592	226,589	199,544	176,430	154,542	123,753	112,179	106,787	95,089	89,834
(000's omitted)										
Net earnings for year*	2,542	2,350	2,195	2,064	1,852	1,235	972	680	746	732
Dividends paid on Preferred Stock	—	—	—	—	83	112	21	24	42	55
Net earnings applicable to common equity*	2,542	2,350	2,195	2,064	1,769	1,123	951	656	704	677
Dividends paid on common stock	1,078	1,048	936	854	664	598	507	459	432	413
Net earnings for year retained in business	1,464	1,302	1,259	1,210	1,105	525	390	197	272	264
Net earnings per share common*	3.73	3.53	3.40	3.38	3.18	2.20	1.93	1.43	1.54	1.63
Dividends per share common	1.60	1.60	1.50	1.40	1.25	1.20	1.05	1.00	1.00	1.00
Net Working Capital** *(000's omitted)*	13,468	12,720	12,921	12,866	8,424	8,369	8,055	6,422	6,477	6,473
Ratio of current assets to current liabilities**	2.12 to 1	1.98 to 1	2.25 to 1	2.37 to 1	2.06 to 1	2.24 to 1	2.48 to 1	2.26 to 1	2.47 to 1	2.62 to 1
Stockholders' Equity *(000's omitted)*	20,214	18,247	16,351	13,986	12,738	11,604	11,078	8,311	8,114	7,844
Shares outstanding										
Preferred	—	—	—	—	9,500	18,850	25,000	4,934	5,239	11,471
Common	681,866	665,116	645,996	610,891	561,861	513,901	483,151	459,590	457,688	414,884
Book value per share common	29.65	27.43	25.31	22.89	20.89	18.73	17.46	16.94	16.51	15.98
Number of common shareholders	4,183	4,290	3,827	3,228	2,389	2,291	2,161	1,998	1,777	1,370
Number of stores at close of year										
Retail	166	163	148	152	146	143	145	151	162	179
Agency and wholesale	423	439	354	376	419	504	556	551	562	559
Average sales per retail location	1,341,000	1,260,000	1,119,000	953,000	851,000	665,000	557,000	510,000	415,000	365,000
Number of employees (including part time)	7,000	6,100	5,600	5,300	4,600	3,900	3,400	3,300	3,200	3,100

*Including a special credit of $294,000 in 1961
**Red Owl Stores, Inc. and Consolidated Subsidiaries, excluding wholly-owned realty subsidiaries.

DIRECTORS

James R. Arneill, *M. D. Executive Director and Chief Surgeon of Arneill Medical and Dental Center, Denver, Colorado*

Ford Bell, *Chairman of the Board of Directors, and Chief Executive Officer, Red Owl Stores, Inc.*

Alf L. Bergerud, *President, Red Owl Stores, Inc.*

Merrill M. Cohen, *President, J. M. Dain & Co., Inc. of Minneapolis*

John C. Cornelius, *Senior Consultant and Director, Batten, Barton, Durstine & Osborn, Inc.*

Glenn R. Grife, *Red Owl Stores, Inc.*

Goodrich Lowry, *President, Northwest Bancorporation of Minneapolis*

Pierce H. McDowell, *President, Howalt-McDowell, Inc., Sioux Falls, South Dakota*

Donald G. McNeely, *Vice President, St. Paul Terminal Warehouse Company of St. Paul*

Erling Rice, *Vice President, Red Owl Stores, Inc.*

Lawrence W. Rixe, *Vice President, Red Owl Stores, Inc.*

OFFICERS

Ford Bell, *Chairman of the Board of Directors and Chief Executive Officer*

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Michael J. McMahon, *Vice President, Advertising*

William J. Quinn, *Vice President, Merchandising and Procurement*

Erling Rice, *Vice President, Real Estate, Public Relations and Construction*

Lawrence W. Rixe, *Vice President, Finance*

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Thomas R. Pellett, *Treasurer*

F. D. Scott, *Controller*

Clayton C. RaDue, *Assistant Vice President, Retail Operations*

Neil A. Riley, *Assistant Vice President, Real Estate and Public Relations*

Frank L. Walker, *Assistant Vice President, Agency Division*

Alvin L. Nordstrom, *Assistant Secretary, Retail Operations Research and Controls*

For more information about the activities and policies of Red Owl Stores, write to:

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